

# High Income Fund Third Quarter 2014 Report

# CALAMOS®

## OVERVIEW

The fund invests in a diversified portfolio of U.S. and non-U.S. high yield bonds.

## KEY FEATURES

- » **Focus on the mid-credit tiers** using three decades of credit evaluation to find issuers with sustainable revenues and lower risk of default
- » **Emphasis on total return**, rather than an exclusive focus on yield, may enhance our ability to generate alpha and preserve capital over the entire credit cycles
- » **A disciplined process** using fundamental analysis which can potentially provide the best opportunity for identifying investments

## PORTFOLIO FIT

With a total return emphasis, the fund can complement speculative-grade or investment-grade credit exposure which may provide an attractive option for fixed income investors concerned about generating income.

## FUND TICKER SYMBOLS

A Shares C Shares I Shares  
CHYDX CCHYX CIHYX

There can be no assurance that the Fund will achieve its investment objective.

**NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE**

## Key Drivers of Performance

- » The fund's results were affected by a selloff in the quarter, as investors worried about the timing of interest rate hikes by the Federal Reserve.
- » We continue to focus on issuers' balance sheets and debt-servicing abilities, and we favor bonds with mid-tier credit ratings.
- » Selection in the materials sector, in particular in the diversified metals and mining industry, added relative value while selection in the energy sector hindered performance.

## Market and portfolio overview

- » The high-yield market struggled in the third quarter despite being supported by stronger economic data and accommodative policy by the Federal Reserve.
- » The market declined as investors continued to price in the likelihood of a Fed-induced rate hike in mid-2015.
- » We believe that the current high credit spreads give the market some cushion to absorb potential higher interest rates, which makes the asset class look attractive relative to other fixed-income alternatives.

## AVERAGE ANNUAL RETURNS

	QTD	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR	SINCE I SHARE INCEPTION (3/1/02)	SINCE A SHARE INCEPTION (8/2/99)
<b>Calamos High Income Fund</b>								
I shares – at NAV	-2.04%	3.16%	6.64%	8.79%	8.14%	6.59%	7.50%	N/A
A shares – at NAV	-2.11	2.96	6.38	8.52	7.87	6.32	N/A	6.77%
A shares – Load adjusted	-6.80	-1.97	1.28	6.79	6.82	5.80	N/A	6.42
<b>BofA ML BB-B High Yield Constrained Index</b>	-1.59	3.87	7.32	10.24	9.78	7.50	8.30	6.95
<b>Credit Suisse High Yield Index</b>	-1.95	3.50	7.07	10.62	10.36	7.98	9.23	7.66

The Credit Suisse High Yield Index return "Since A share Inception" start date is 7/31/99 and the "Since I share Inception" start date is 2/28/02.

Performance data quoted represents past performance, which is no guarantee of future results. Current performance may be lower or higher than the performance quoted. The principal value of an investment will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. Load-adjusted returns take into account the Fund's maximum 4.75% front-end sales load. You can obtain performance data current to the most recent month end by visiting [www.calamos.com](http://www.calamos.com).

Performance may reflect waivers or reimbursement of certain expenses. Calendar year returns measure net investment income and capital gain or loss from portfolio investments for each period specified. Average annual total return measures net investment income and capital gain or loss from portfolio investments as an annualized average. All performance shown assumes reinvestment of dividends and capital gains distributions. In calculating net investment income, all applicable fees and expenses are deducted from the returns. As of the prospectus dated 3/1/14, the Fund's gross expense ratios for Class A shares is 1.18%; Class I Shares is 0.93%, respectively.

The offering price for Class I shares is the NAV per share with no initial sales charge. There are no contingent deferred sales charges or distribution or service fees with respect to Class I shares. The minimum initial investment required to purchase each Fund's Class I shares is \$1 million. Class I shares are offered primarily for direct investment by investors through certain tax-exempt retirement plans (including 401(k) plans, 457 plans, employer-sponsored 403(b) plans, profit sharing and money purchase pension plans, defined benefit plans and non qualified deferred compensation plans) and by institutional clients, provided such plans or clients have assets of at least \$1 million. Class I shares may also be offered to certain other entities or programs, including, but not limited to, investment companies, under certain circumstances.

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## Fund Quarterly Attribution

	ENERGY	MATERIALS	INDUSTRIALS	CONSUMER DISCRETIONARY	CONSUMER STAPLES	HEALTH CARE	FINANCIALS	INFORMATION TECHNOLOGY	TELECOM SERVICES	UTILITIES
HIGH INCOME FUND VERSUS BOFA ML HIGH YIELD BB-B CONSTRAINED INDEX										
Value Added from Sector	-0.01	0.00	0.00	0.01	0.00	0.00	-0.01	0.00	0.01	-0.01
Value Added from Selection & Interaction	-0.18	0.10	-0.05	-0.07	0.01	-0.01	0.00	-0.08	-0.03	-0.05
Total Added Value	-0.18	0.10	-0.05	-0.06	0.01	0.00	-0.02	-0.09	-0.02	-0.06

## SECTOR WEIGHTS (AVERAGE % WEIGHT DURING THE QUARTER)

High Income Fund	17.90	10.38	11.89	25.01	2.33	7.97	4.73	7.95	6.63	1.73
BofA ML High Yield BB-B Constrained Index	16.10	8.96	10.45	20.22	4.01	8.05	14.37	4.31	9.33	3.95
Over/underweight	1.79	1.42	1.44	4.79	-1.68	-0.08	-9.64	3.64	-2.70	-2.22

## SECTOR RETURNS (%)

High Income Fund	-3.04	-0.87	-1.74	-1.70	-1.75	-1.20	-1.54	-2.64	-2.37	-3.62
BofA ML High Yield BB-B Constrained Index	-2.11	-1.84	-1.32	-1.43	-1.59	-1.14	-1.44	-1.66	-1.84	-1.29
Relative Return	-0.93	0.98	-0.41	-0.27	-0.16	-0.05	-0.10	-0.99	-0.53	-2.33

Calculations may be subject to rounding.

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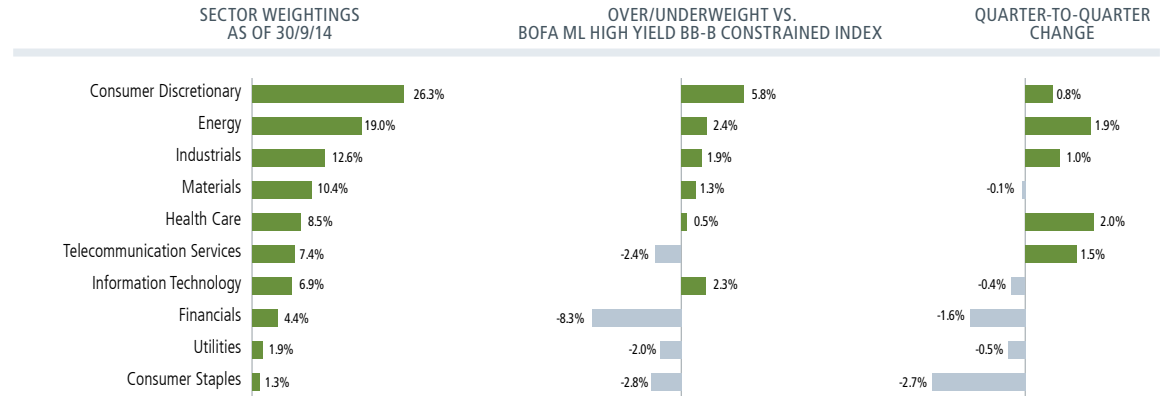
## Market Commentary

### OUTLOOK

The U.S. high-yield market struggled despite being supported by stronger economic data and accommodative Fed policy. At its September meeting, the Fed maintained its commitment to keep interest rates near zero for a “considerable time.” The Fed appeared in no rush to increase rates, as U.S. economic growth remained moderate and inflation remained contained. Various data points showed the U.S. economy gaining momentum, as auto sales and factory new orders posted record gains. In addition, sales at retailers saw a seventh consecutive months of increase. Consumer sentiment has also been on the rise as gasoline prices have declined. Cheaper oil also aided a number of industries and helped to maintain economic growth.

While we continue to monitor the quality of the new-issue calendar and global-macro-economic numbers for potential signs of a turning point in the credit cycle, we do not believe that we are there yet. Our view on Treasury rates remains unchanged; we believe that as the taper ends next month, the market will continue to price in the likelihood of the first Fed rate hike in 2015, leading to more curve flattening given the strong demand dynamics and geopolitical concerns that continue to impact the long end of the Treasury market. At current spreads, which are at their widest point this year, the high-yield market does have some cushion to absorb likely higher rates. This resiliency makes the asset class look attractive relative to other fixed-income alternatives. However, we continue to expect most of the performance to be generated from coupon income and not price appreciation.

### SECTOR POSITIONING



Sector weightings exclude cash or cash equivalents, any government/sovereign bonds or instruments on broad indexes the portfolio may hold. Holdings and weightings are subject to change daily. You can obtain a complete list of holdings by visiting [www.calamos.com](http://www.calamos.com). Please see additional disclosures on last page.

### Positioning

We continue to focus on issuers’ balance sheets and debt-servicing abilities. We are currently favoring mid-grade credits that we believe offer more favorable risk/reward profiles over the credit cycle. The portfolio’s largest overweight positions relative to the benchmark index are to the consumer discretionary and energy sectors, while the largest underweight positions currently include financials and consumer staples.

During the quarter, we increased the allocation to health care by adding names to the health care facilities industry.

We also boosted our allocation to the energy sector. Holdings were added in the oil-and-gas exploration and production as well as the storage and transportation industries.

We reduced the allocation to consumer staples, selling underperforming positions in the packaged foods and meats industries.

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## Fund Information

### TOP 10 HOLDINGS<sup>1</sup>

Company	Weighting
Hughes Satellite Systems Corp.	1.7%
W&T Offshore, Inc.	1.6
Gulfmark Offshore, Inc.	1.5
Titan International, Inc.	1.5
Sprint Corp.	1.4
ArcelorMittal, SA	1.3
DaVita HealthCare Partners, Inc.	1.3
United Rentals North America, Inc.	1.3
Dana Holding Corp.	1.3
American Axle & Manufacturing, Inc.	1.3
<b>TOTAL</b>	<b>14.2</b>

Holdings and weightings are subject to change daily. Holdings are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned.

<sup>1</sup> Top 10 Holdings are calculated as a percentage of Net Assets. The tables exclude cash or cash equivalents, any government/sovereign bonds or broad based index hedging securities the portfolio may hold. You can obtain a complete listing of holdings by visiting [www.calamos.com](http://www.calamos.com).

### RISK MEASURES SINCE FUND INCEPTION

	FUND	BOFA ML HIGH YIELD BB-B CONstrained INDEX
Alpha	0.17%	N/A
Beta	0.96	1.00
Annualized Standard Deviation	8.94%	8.63%
R-squared	85.42	100.00
Tracking Error	3.43%	N/A

### FUND FACTS

	FUND	BOFA ML HIGH YIELD BB-B CONstrained INDEX
Number of Holdings	150	1,800
Total Net Assets	\$191.0 million	N/A
Weighted Average Duration	5.0 years	5.3 years
Weighted Average Maturity	6.5 years	8.2 years
30-Day SEC Yield (A shares)	3.93%	N/A
Portfolio Turnover (12 months)	55.18%	N/A

### Term Definitions

**Credit spread** is the additional yield an investor receives for a security with credit risk, over the yield it would receive for a risk-free security, such as U.S. Treasuries. A tightening of spreads implies the market is factoring in less risk. **Coupon clipping** refers to a bond investment strategy that favors bonds with higher yields than the benchmark as a way to generate out-performance. **Yield to worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. **Spread to worst** measures the difference from the worst performing security to the best, and can be seen as a measure of dispersion of returns within a given market or between markets. **Yield curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. **Dollar price** is percentage of par, or face value, at which a bond is quoted. **Dollar price** is one method by which the price of a bond is quoted. **Quantitative easing** is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. **Debt/capital ratio** is a measure of a company's financial leverage, calculated as the company's debt divided by its total capital. **ROIC (return on invested capital)** measures how effectively a company uses the money invested in its operations, calculated as a company's net income minus any dividends divided by the company's total capital. **Alpha** is the measurement of performance on a risk adjusted basis. A positive alpha shows that performance of a portfolio was higher than expected given the risk. A negative alpha shows that the performance was less than expected given the risk. **Beta** is a historic measure of a fund's relative volatility, which is one of the measures of risk; a beta of 0.5 reflects 1/2 the market's volatility as represented by the Fund's primary benchmark, while a beta of 2.0 reflects twice the volatility. **Annualized standard deviation** is a statistical measure of the historical volatility of a mutual fund or portfolio. **R-squared** is a mathematical measure that describes how closely a security's movement reflects movements in a benchmark. **Tracking error** is a measure of the volatility of excess returns relative to

### FUND INFORMATION

	A SHARES	B SHARES	C SHARES	I SHARES
Sales Load/Maximum Sales Charge	Front-End/4.75%	Back-End/5.00%	Level-Load/1.00%	N/A
Gross Expense Ratio <sup>*</sup>	1.18%	1.93%	1.93%	0.93%
Net Expense Ratio <sup>*</sup>	1.18%	1.93%	1.93%	0.93%

<sup>\*</sup> As of prospectus dated 3/1/14

a benchmark. A credit rating is a relative and subjective measure of a bond issuer's credit risk, including the possibility of default. **Current (SEC) Yield** reflects the dividends and interest earned by the Fund during the 30-day period ended as of the date stated above after deducting the Fund's expenses for that same period. Credit ratings are assigned to companies by third-party groups, such as Standard & Poor's. Assets with the highest ratings are referred to as "investment grade" while those in the lower tiers are referred to as "noninvestment grade" or "high-yield." Ratings are measured using a scale that typically ranges from AAA (highest) to D (lowest).

### Index Definitions

The BofA Merrill Lynch BB-B U.S. High Yield Constrained Index (HUC4) contains all securities in the BofA Merrill Lynch U.S. High Yield Index rated BB1 through B3, based on an average of Moody's, S&P and Fitch, but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. **Credit Suisse High Yield Index** is an unmanaged index of high yield debt securities.

### Additional Information

Past performance does not indicate future results. No investment strategy or objective is guaranteed and a client's account value can fluctuate over time and be worth more or less than the original investment. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

### Important Fund Risk Information.

An investment in the Fund(s) is subject to risks, and you could lose money on your investment in the Fund(s). There can be no assurance that the Fund(s) will achieve its investment objective. Your investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government

agency. The risks associated with an investment in the Fund(s) can increase during times of significant market volatility. The Fund(s) also has specific principal risks, which are described below. More detailed information regarding these risks can be found in the Fund's prospectus. The principal risks of investing in the Calamos High Income Fund include: high yield risk consisting of increased credit and liquidity risks, convertible securities risk consisting of interest rate risk and credit risk, synthetic convertible instruments risk, interest rate risk, credit risk, liquidity risk, portfolio selection risk, foreign securities risk and liquidity risk. As a result of political or economic instability in foreign countries, there can be special risks associated with investing in foreign securities, including fluctuations in currency exchange rates, increased price volatility and difficulty obtaining information. In addition, emerging markets may present additional risk due to potential for greater economic and political instability in less developed countries. The Fund's fixed income securities are subject to interest rate risk. If rates increase, the value of the Fund's investments generally declines. Owning a bond fund is not the same as directly owning fixed income securities. If the market moves, losses will occur instantaneously, and there will be no ability to hold a bond to maturity.

**Before investing carefully consider the fund's investment objectives, risks, charges and expenses. Please see the prospectus and summary prospectus containing this and other information or call 1-800-582-6959. Read it carefully before investing.**

# CALAMOS<sup>®</sup>

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